

# **INSTITUTE AND FACULTY OF ACTUARIES**

## **EXAMINERS' REPORT**

September 2021

### **SA3 – General Insurance Specialist Advanced**

#### **Introduction**

The Examiners' Report is written by the Chief Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The Examiners are charged by Council with examining the published syllabus. The Examiners have access to the Core Reading, which is designed to interpret the syllabus, and will generally base questions around it but are not required to examine the content of Core Reading specifically or exclusively.

For numerical questions the Examiners' preferred approach to the solution is reproduced in this report; other valid approaches are given appropriate credit. For essay-style questions, particularly the open-ended questions in the later subjects, the report may contain more points than the Examiners will expect from a solution that scores full marks.

The report is written based on the legislative and regulatory context pertaining to the date that the examination was set. Candidates should take into account the possibility that circumstances may have changed if using these reports for revision.

Sarah Hutchinson  
Chair of the Board of Examiners  
December 2021

## **A. General comments on the *aims of this subject and how it is marked***

The aim of the General Insurance Specialist Advanced subject is to instil in successful candidates the ability to apply knowledge of the general insurance environment and the principles of actuarial practice to providers of general insurance.

Our expectation of a passing candidate at this stage is that, broadly, they should appear capable of stepping up to a head of function (pricing / reserving / capital) role at a small to mid-sized organisation or being a senior member of a function team at a larger organisation. They should demonstrate not only a grasp of the technical aspects of general insurance actuarial work, but also a good sense for products, the competitive marketplace, regulatory environments and the operational aspects of an insurance company. They should be able to pull these areas of understanding together to provide well rounded advice to the users of their services.

Consistent with previous examiners' reports, we would offer candidates two key pieces of advice – (i) read the question properly and (ii) take the time to actually think about it. Further to previous reports, we would stress that candidates do not need to get the majority of the points included in this report in order to pass (there are significantly more than 100 marks available for the points in this report). Time spent making sure that you are answering the question that is asked is more valuable than a writing as many points as possible, regardless of whether they are relevant.

On the first issue, candidates should always work on the assumption that the question wording has been carefully chosen. Therefore, it is essential to read the question properly. Various examples from this paper of recurrent failure to read a question are noted in the commentary for the questions.

If something is not asked for then candidates will waste valuable time writing answers that will gain no marks. These broader answers may be a logical next step to the question and so may be appropriate for candidates to discuss in a professional context. However, this is an exam with a finite number of marks available and so the scope must necessarily be limited and specifically defined.

If a question does specifically mention something, candidates should also assume that there are marks available for this aspect of the question. During the exam setting process, any content that is superfluous will have been removed. A clear implication of that is that if there are numbers provided in the question paper then there are marks available for comment and consideration of those numbers.

Wording of question sections should also be considered in the context of the position within the overall question. Where new question information is provided between sections, candidates should recognise that this information is specifically relevant to the following section or sections. When answering preceding question sections, candidates should not consider any subsequent information in their answers (although it may cover similar ground).

On the second issue, candidates should note that SA3 is the key paper at which we test candidates' broader thinking. This is generally the final paper before qualifying as a professional, and we consider a capacity for broader thinking to be one of the best indicators of a candidate's suitability to act in a professional capacity once qualified.

As such we aim to design exam papers so that it is difficult to pass without displaying some capacity for independent and broad thinking, as well as to reward instances where these skills are displayed. When reviewing past papers, candidates should assume that the marks available for generic points are generally fewer than those awarded for the more challenging points that would be the mark of high quality professional insight in a practising actuary. Marks available for list items from knowledge are lower still.

We strongly recommend that candidates step back and take the time to thoroughly think about what is actually going on in question situations proposed rather than simply considering numbers to be analysed with standard techniques. For example, candidates might stop to think about what claims actually are for a particular class of business, considering factors such as what event causes the claim, who reports the claim, how it is dealt with once reported, what makes one claim small while another substantial, etc.

This more grounded, real world perspective will help candidates to consider items such as practical issues, stakeholders involved and their potentially diverging objectives, wider impacts, regulatory or ethical issues, inappropriateness of certain actuarial techniques for the specific situation, current economic or cyclical effects, etc. This is likely to lead to significantly broader point generation (and indeed reflects the thought processes of the examiners in drafting the questions and solutions) and a more rounded understanding of the underlying risks and dynamics which should also be of value to candidates when dealing with different stakeholders in their professional life. Some examples of this failure to think more widely on the current paper are noted in the commentary for the questions below.

More generally, we would also advise candidates to employ basic exam techniques such as well-structured answers and effective time management. The transition to online exams should assist candidates with providing well-structured answers. Bullet points within answers can help make answers clearer, and we would advise candidates to ensure that separate points are split into separate bullets and that they do not duplicate the same point across separate bullets.

Candidates should also consider the command words used and tailor the depth of their answers accordingly.

Candidates who give well-reasoned points relevant to the specific question being asked, which are not in the marking schedule, are awarded marks for doing so.

## **B. Comments on candidate performance in this diet of the examination.**

A number of specific comments are provided next to the questions where there were repeated reasons for candidates to score badly. These include recurring issues with failure to read the question properly, lack of consideration of secondary factors to assist with point generation and time management.

## **C. Pass Mark**

The Pass Mark for this exam was 65  
321 presented themselves and 128 passed.

## Solutions for Subject SA3 – September 2021

### Q1

(i)

Medical malpractice	[½]
electricity shuts down (due to a cyber event) in a major operation causing a claim	[½]
Energy	[½]
Technology malfunction leads to temperature reading in a nuclear reactor to be inaccurate causing explosion	[½]
Aerospace	[½]
malicious hacker guides a missile into a place that it was not intended causing property damage	[½]
Business interruption	[½]
malicious hacker causes the sales admin system for a department store delivering products home to collapse so all deliveries are cancelled leading to a business interruption claim as the company has to fix the system and work out what has been sold and where the products need to be delivered - causing a severe backlog	[½]
Motor	[½]
ehacker, system fault, coding error)	[½]
Product liability	[½]
hacker causing a malfunction to an electronic product, resulting in recall if the fault cannot be rectified	[½]
D&O / E&O	[½]
for data breaches due to system fault, hacker	[½]

[Marks available 7, maximum 3]

(ii)

More sectors are being computerised / digitised and the risk is underestimated according to studies by reputable bodies and thus the regulator is worried that it is the next big systemic surprise for insurance sector	[1]
Perhaps there have recently been losses in silent cyber in the industry and some insolvencies or near insolvencies	[1]
Insurers do not mention it in their regulatory reports or risk management reports like ORSA and there is not risk appetite set for this risk / risk management	[1]
Other regulators globally are worried so they all tend to be influenced by each other	[1]
Policyholders not having needs met leading to disputes	[1]
Risk of under-pricing	[1]
Risk of under-reserving and insolvency	[1]
Accumulation of risk	[1]
Market stability	[1]
Risk of systemic risk if many insurers go insolvent	[1]

[Marks available 10, maximum 3]

(iii)

Description of bottom-up approach	[1]
Need to understand which policies have cyber risk exclusions and which ones is unclear and which ones explicitly cover cyber risk to quantify this risk	[1]
this may require new fields in policy admin systems and backfilling data for each policy written to date and unearned - very time consuming	[1]
Need to then quantify the impact of cyber events on the lines of business	[1]

this will require expert judgement from underwriters and other functions so a guesstimate approach and different underwriters may think of this risk with different mindset or risk aversion	[1]
Description of top-down approach	[1]
Or use a more top-down expert judgement method where underwriters are asked how many LR points do you think a silent cyber event could impact you at various return periods	[1]
Not much audit trail / justification of the numbers collated here so might not be a good approach if the intention is to star holding capital against this risk	[1]
Or use stress/scenario testing method - so develop a scenario from research and using support from underwriters and other functions try to understand how the situation would play out	[1]
Need to embed in the stress and scenario testing framework of the company – may be time consuming to do every year or regularly	[1]
Using Lloyd's RDS	[1]
[Marks available 11, maximum 6]	

(iv)	
Tighten policy wording (if possible - in following / subscription markets this may not be as the wording is standardised)	[1]
Lobby bodies e.g. LMA to include more explicit clauses	[1]
Do not underwrite certain lines of business	[1]
Try to find reinsurance for silent cyber risk	[1]
Regulator could impose restrictions on proportion of an insurer's book that can be made up of certain classes of business that are exposed to silent cyber	[1]
Clarity on policy wording coverage, e.g. exclusions, provide explicit cyber coverage	[1]
Increase awareness among industry	[1]
Research	[1]
Data pooling	[1]
Industry benchmarks	[1]
[Marks available 10, maximum 5]	

**[Total 17]**

*Candidates scored reasonably well on this question, quite a topical issue and we would expect candidates to score well across most of the parts.*

*Candidates who did not score highly on this question generally did not score well on part (iii), at times failing to structure answers to this part around indicating fundamental overall approaches (e.g. bottom-up) and then providing descriptions of the overall approaches thereafter.*

## Q2

(i)	
Business interruption insurance covers you for financial losses; during periods when you cannot carry out business as usual due to an unexpected event such as natural disasters, equipment damage or vandalism. Business interruption insurance aims to put your business back in the same trading position it was in before the event occurred	[2]

Mention of some of the perils covered	[½]
Usually an add-on or optional extra part of property cover etc	[1]
Benefits usually include	
Revenue/profit lost	[½]
Rent payments	[½]
Relocation payments	[½]
Wages	[½]
[Marks available 5½, maximum 3]	

(ii)	
In the P&L statement reflecting pandemic related losses over the year	[1]
In the balance sheet reflecting current provisions for the pandemic	[1]
In the commentary to the report and accounts discussing the impacts to the business	[1]
In auditor's statements around going concern etc	[1]
In the SFCR highlighting material uncertainty	[1]
ORSA	[1]
Lloyd's SBF and LCR	[1]
Capital (e.g. SCR) calculations	[1]
Actuarial Function report	[1]
Cash flow statement	[1]
Loss reserving specialist report	[1]
Credit as an alternative given to for example OSLR, IBNR, UPR, or other financial	[2]
[Marks available 13, maximum 4]	

(iii)(a)	
Pandemic related losses and classes of business most impacted	
More business interruption and general liability claims due to lockdown causing closure of businesses	[1]
Supply chains impacted due to lockdowns causing trade credit claims	[1]
Marine claims for ships being parked in docks/harbours so owners filing claims for fixes (now that they are docked)	[1]
Aerospace / airlines due to ban on travel to contain the virus	[1]
Motor due to reduced travel (commuting and otherwise) - impact is of reduced (rather than increased) losses	[1]

(b)	
Impacts on claims profiles	
Higher claims reserves and greater uncertainty or margins added to reserves booked	[1]
Longer settlement times due to litigation and class action from clients	[1]
Longer processing times due to possible reduced workforce	[1]
Impact on claims frequency and severity	[1]
Impact of claims inflation	[1]
Notification delays	[1]
Impact of reinsurance on net claims profiles	[1]

(c)	
Impacts on premiums & exposures	
Some rate rises in lines with pandemic related claims to allow for the above so higher GWP in some lines	[1]

However, offset by the need for insurance being lowered e.g., oil companies may have demand for oil suffer as businesses close so as they are producing less oil by shutting down rigs etc, may require less insurance [1]  
 Exposure profile will change e.g., aircrafts being grounded means there may be more airport collision claims [1]  
 Rise in reinsurance rates so higher GWP [1]  
 New products / innovation to cater for the pandemic risk increases GWP [1]  
 Reduced exposure on motor due to reduced driving [1]  
 Changes in legislation - give rationale [1]  
 Increase in fraudulent claims due to recessionary environment [1]  
 Impact on new business vs renewals [1]

(d)

Investments and credit losses  
 Investment portfolio will have some losses - lower equity values due to the impacts on the various sectors from pandemic, but some of the risk will be hedged [1]  
 widening credit spreads on bonds due to the uncertainty [1]  
 Sale of assets at lower values [1]  
 Lower investment income / cash flow [1]  
 Some reinsurers may not be able to pay claims immediately (so go beyond their contractual payment dates) due to a lot of claims / insolvency risk - so reinsurance credit risk is increased [1]  
 Impact of increased credit losses on other third parties / receivables [1]

(e)

Operational impacts  
 Credit rating downgrades (which has knock on impacts to debt cost etc.) [1]  
 Home working arrangements - staff need to be motivated and supported if childcare and other family impacts are impacting work, IT changed (specifically more investment in IT equipment, shipping items from the office, etc.) [1]  
 Closure of call centres / customer services with reduced workforce able to work from home, access records, etc. [1]  
 Communication with brokers and other stakeholders will have to adapt to home working arrangements [1]  
 Possible increased costs (e.g., cleaning, social distancing measures), or possible decrease in costs (e.g., lower rent etc) [1]  
 Possible impact on liquidity due to reduction in new business volumes / cash flows [1]  
 Other relevant points [1]

[Marks available 34, maximum 15]

(iv)

Quantifying pandemic risk is difficult due to limited data and thus many insurers may have excluded it in their cover [1]  
 and thus the government wants to ensure there is cover for pandemics in the future given the vast scale or impact it can have on society so is a public health issue [1]  
 and to protect the insurance sector which may be having an increase in liability/lawsuits [1]  
 there may have been some insolvencies and so any pandemic risk that the insurer cannot handle when the claims are too large, the government would guarantee as long as the insurers pay an (annual) fee [1]  
 Pressure from insurers or other bodies (e.g. ABI) to consider this option [1]

Political reasons - to win votes	[1]
Economies of scale	[1]
To protect the economy	[1]
Follow other countries	[1]
Reduce risk of underinsurance	[1]

[Marks available 10, maximum 3]

(v)

Pros:

Will provide confidence to insureds and ensure the problems in (a) do not occur	[1]
Will provide confidence to the insurance sector that they can include pandemic cover in their policies	[1]
Other relevant points	[1]

Cons:

Needs to be funded. Perhaps government will require levies from insurers. Anything required beyond the pot of reserves will be funded by taxpayers	[1]
Have to decide what levies to have for each insurer - has to be a fair scheme so needs a lot of thought	[1]
Will be an enormous amount locked up - more than flood re in the UK as a pandemic is a very high return period event - government does not have expertise on insurance so might be inefficient reserving and investment policy	[1]
Government is not an insurer to does not necessarily have the expertise or efficiency and innovative approach like the insurance market	[1]
Other relevant points	[1]

[Marks available 8, maximum 6]

(vi)

Pool re type structure where Companies buy insurance from their usual insurer, who then transfers the terrorist risk to Pool Re. Pool Re itself purchases government insurance to cover the costs of very expensive attacks	[1]
Something like the TRIA model (for terrorism) in the US could oblige businesses and insurers to take some of the risk. After that, the government would pay 95% of all losses up to a threshold of \$ 750 billion	[1]
A pandemic bond - sort of like a cat bond issued by multilateral organisation like world bank which pays interest to investors. Investors buy the bond that sits in a fund. If a pandemic happens, investors don't get back their investment, if it doesn't happen, investors get back their investment	[1]
Make it compulsory for all insurers to offer pandemic cover in business interruption and general liability	[1]
Reduce barriers to entry	[1]
Make insurance easier to sell	[1]
Other relevant suggestion	[1]

[Marks available 7, maximum 3]

**[Total 34]**

*The majority of candidates scored well on this question – In particular many scored well on part (iii), sufficiently outlining the pandemic impacts across a broad range of areas.*



*Candidates generally did not score well on part (ii) of the question, with many candidates listing individual financial statement line items, with a max of 2 marks being possible to score with this approach.*

*Candidates generally scored well for parts (iv) and (v), but struggled to generate sufficient points to score well for the final part of the question.*

### Q3

(i)

Difference between risk and rating factors

Risk factor is something that affects the level of risk for the insurance policy [1]

Rating factor is something that is used in the rating process [1]

Rating factors may themselves be risk factors [1]

Or they may be used as proxies for risk factors where these cannot be measured or used [1]

[Marks available 4, maximum 3]

(ii)

Cannot reasonably be requested on a proposal form e.g. obscure information about a house's construction / floor area etc [1]

Cannot be objectively defined for a proposal form [1]

Could not be verified if declared on a proposal form [1]

Not legally allowed to ask for certain information (e.g. gender) [1]

Cannot be measured without telematics or similar [1]

Policyholder may not know at time of rating e.g. how they will use their vehicle over the coming year [1]

Risk factors may be manipulated [1]

Not necessarily measurable [1]

Risk factors may not be measurable [1]

Other relevant suggestion [1]

[Marks available 10, maximum 4]

(iii)

Speed of driving [½]

Quality of driving [½]

Roads driven on [½]

Alcohol consumed [½]

Time of day when driving [½]

Locations parked at other than home [½]

Age & earning potential of unrelated passengers [½]

Actual miles driven [½]

Gender [½]

Density of traffic [½]

Risk of theft [½]

Ease of repair [½]

Other relevant suggestion [1]

[Marks available 7, maximum 2]

(iv)

Occupation as indicates age & earning potential of passengers	[1]
Previous convictions as indicates speed / quality / alcohol	[1]
Home location as indicates likely nearby roads	[1]
Type of car as indicator of speed e.g. sports car vs estate	[1]
Years since you past your test	[1]
Age with reason	[1]
Gender with reason	[1]
Other relevant suggestion	[1]

Only award ½ if no reason is given  
[Marks available 8, maximum 4]

(v)

Both types of excess:

Give policyholder an interest to encourage better risk management	[½]
Reduces claim frequency	[½]
Removes claims that would fall within the excess	[½]
Discourages small claims not materially above the excess	[½]
including for cosmetic issues not necessary or urgent to repair	[½]
particularly where there are no claims bonuses at risk	[½]
Makes claims handling & payment costs a more reasonable proportion of indemnity costs	[½]
generating better value for customers	[½]
Which results in cheaper insurance, also cheaper due to	[½]
not paying brokerage / aggregator fees on the additional premium that would be required	[½]
or profit margin	[½]
would be cheaper anyway due to lower level of indemnity	[½]
Competitors do so need to do to remain/appear competitive	[½]
particularly where headline price can stand out more on aggregators	[½]
Compulsory excess can be set at a level that car owners can reasonably be expected to be able to afford	[½]
while still achieving the key benefits of having an excess	[½]
Voluntary excess allows customers to achieve a level of risk transfer appropriate to their financial circumstances	[½]
avoiding paying costs on risk that they are willing and able to retain	[½]
Necessary in a competitive market to offer flexibility	[½]

[Marks available 9½, maximum 5]

(vi)

General points

Impact likely to be similar for compulsory and voluntary excesses	[½]
but more pronounced for voluntary excesses depending on size distribution	[½]
Impact mostly on damage (TP & OD) with limited impact on injury	[½]
May be no impact on some specific damage types (e.g. windscreen) where excess terms are different	[½]
May reduce fraudulent claims as screening for potential fraud would be prohibitive on minor claims	[½]
alternatively may increase fraudulent activity if inflating claim value to offset the impact of the excess	[½]

Claims profile:

Reduce the cost of claims	[1/2]
Removes all small claims below excess	[1/2]
and most claims close to excess particularly where no claims bonus is material	[1/2]
may lead to higher/lower ACPC	[1/2]
And differently shaped distribution	[1/2]
very unlikely to have any impact on XoL RI recoverability where attachments will be well above any excess level	[1/2]
but mathematically may have a greater impact on net ACPCs that are less distorted by large claims	[1/2]
Weighting to indemnity vs costs will be higher	[1/2]
as internal handling costs would not scale proportionate to size of claim	[1/2]
although third party legal costs may be a higher proportion by removing small claims where people would not seek legal support	[1/2]
May lead to an increased proportion of nil claims where costs fall below excess or are deemed not worth recovering given excess	[1/2]

Claim development profile:

Aggregate development will be slower on average with higher injury weighting	[1/2]
Also likely to be slower developing on damage as shifts weight to larger and more complex repairs	[1/2]
may be additional reporting delays where people defer resolving issues as they are responsible for some of the costs	[1/2]
or where they initially expect the claim to settle within the excess so only make a claim once costs are higher than anticipated	[1/2]

[Marks available 10½, maximum 5]

(vii)

Experience Rating

Miles driven are likely to have a high correlation to claims volumes so there is some experience relationship inherent in the formula	[1]
Cancellation of policyholders failing to meet driver score requirements should also remove the sort of drivers more likely to have higher claims experience	[1]
and in theory may be a more accurate predictor of future claims by picking up individuals driving badly and fewer who are just unlucky	[1]
Loyalty discount further supports this by ensuring that best pricing goes to drivers who have met minimum score requirements consistently over a number of years	[1]

Age & Gender

May not be allowed as rating factors	[1]
May be correlated with make and model of vehicle making this at least a loose proxy	[1]
Arguably may also be correlated with miles driven but more tenuous	[1]
Cancellation of poorer drivers may remove the poorer risks driving the main differences in age / gender risk cohorts reducing the value of the rating factor	[1]
or threat of cancellation may change behaviours similarly reducing the salience of the rating factor	[1]
unless thresholds are set at likely uncommercial levels though, may not impact on anything other than the highest risk groups	[1]

### Location

Likely to be some relationship with miles driven with more central areas likely having lower mileage [1]  
 although arguably higher risk per mile in more central areas [1]  
 conversely may be lower risk e.g. as won't achieve same speed [1]  
 May also be correlated with make & model e.g. more affluent cars less likely to be associated with higher theft risk postcodes [1]

### Anti-selection

Likely to be initial anti-selection on all these factors as this may well be cheaper for higher risks / more expensive for lower risks [1]  
 but likely to either be short lived with rapid cancellation [1]  
 or to have lower impact through changed behaviour [1]  
 may be persistent anti-selection from drivers who don't trigger cancellation but still generate high claims (e.g. careless or unskilled without being fast or reckless) [1]  
 No obvious mechanism for driver behaviour scoring system to help filter out risks from poor locations so some anti-selection likely to be persistent there [1]  
 Extent to which premiums are uncompetitive for good risks leading to anti-selection depends on effectiveness of telematics as a mitigation to allow base premiums to remain viable [1]  
 Formula may dissuade higher mileage drivers [1]  
 particularly where they cannot realistically reduce their mileage [1]  
 May be commercial benefits from the additional simplicity [1]  
 although unlikely as these are simple points to answer [1]  
 Depends on what other insurers are charging [1]

[Marks available 25, maximum 8]

may be better drivers per mile as more experienced [1/2]  
 more reliant on their vehicles [1/2]  
 driving in less densely populated areas [1/2]

[Marks available 1½, maximum 1]

### (viii)

Extent of differences will depend on extent to which telematics & risk screening effectively mitigates the smaller range of rating factors & anti-selection [1]  
 Allowable rating factors may also affect extent of difference, e.g. if age & gender not allowed then less distinction [1]  
 as does sophistication / detail of pricing carried out by competition [1]

### Policyholder profile is likely to be:

More weighted to risk groups considered high risk in standard rating models [1]  
 but capturing better risks within those groups due to telematics [1]

Impact of driver behaviour [1/2]  
 Weighted towards drivers doing lower mileage [1/2]  
 occasional recreational use [1/2]  
 central London driving etc [1/2]

### Average premium

Should be lower average premium within a risk group as should capture the better risks [1]

Weighting to lower mileage policyholders may mean lower average premiums as lower vehicle mile exposure per policy	[1]
Actual average premium relativity at portfolio level will depend on extent of mix differential with potential to attract higher risk groups	[1]
Premiums might be higher for cost of telematics box	[1]
[Marks available 11, maximum 6]	

(ix)

Large injury claims should be reduced as telematics encourages slower driving with less aggressive acceleration & braking	[1]
which may also reduce the number of whiplash claims	[1]
and may lead to generally lower claim frequency from better driving	[1]
or lower claim severity as the speeds involved in an incident are lower leading to lower levels of damage or injury	[1]
although this may only be visible within a risk group with mix differences offsetting at portfolio level	[1]
Potential for higher levels of theft claims as there is no mechanism for the pricing formula to recognise higher risk locations	[1]
Potential for reduced fraud claims where the telematics provides additional evidence for example to dispute liability	[1]
or challenge whiplash claims where there is evidence of low speeds and limited braking	[1]
Compared to a traditional policy with an excess, there is potential for more claims close to excess as pricing formula in the telematics doesn't contain any form of no claims discount	[1]
No particular rationale for changes in reporting pattern other than as a result of change in claims mix	[1]
[Marks available 11, maximum 6]	

(x)

Motor pricing normally takes account of mileage, so this approach is not entirely different but does involve a more direct relationship	[1]
Simpler to price	[1]
Advantages of direct relationship (either insurer or policyholder)	
Fully transparent for policyholder, while quotes based on expected mileage can be uncertain	[1]
Policyholders may not know their typical mileage	[1]
or may have a lifestyle change during the policy term that changes their usage	[1]
Risk of claims being disputed if there is a significant discrepancy in mileage even if unintentional	[1]
At inception, policyholders may provide a higher estimated mileage to avoid the risk of being under-insured or having their claim disputed with a traditional model	[1]
or feel restricted in increasing their usage in case they exceed estimated mileage	[1]
Policyholder may have some control over level of use and hence associated pricing	[1]
Disadvantages of direct relationship (either insurer or policyholder)	
Typical motor pricing recognises that increased vehicle miles are generally associated with more experienced drivers so can allow for the risk relationship to be non-linear	[1]
Uncertainty in monthly premium amounts for policyholders	[1]
May be difficult for policyholders to compare true cost against other traditional policies	[1]
Policyholders may be put off using their vehicle as much due to direct charging	[1]

Potential technology limitations in capturing mileage accurately [1]  
[Marks available 14, maximum 6]  
**[Total 49]**

*Many candidates struggled with parts (vii)-(x) which represented a significant number of marks on the paper (26 in total), with candidates struggling on what was being asked for in these parts of the question, and as such to generate sufficient points to score well.*

*Candidates scored better for the earlier parts of the question. This was expected as most of these parts covered reasonably straightforward material around risk versus rating factors, and as such candidates would be expected to score well here.*

**[Paper Total 100]**

**END OF EXAMINERS' REPORT**